

Jumpcan Pharma (600566.CH)

Strong Potential in Main Products

Shanghai | Pharmaceutical | Company report

29 March 2016

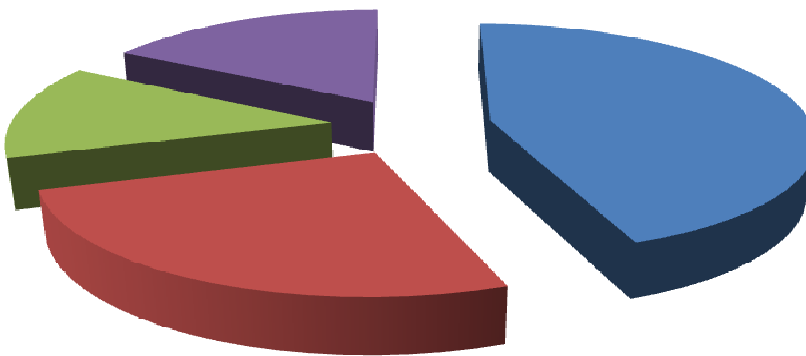
Industry Leader in Performance

According to the financial report for 2015, Jumpcan Pharma achieved turnover of RMB 3.768 billion and net profit that belongs to parent company reached RMB 687 million, a year-on-year increase of 26.17% and 32.19% respectively. It has not only maintained the annual growth rate of 27% since 2011, but also taken the lead when the pharmaceutical industry enters a period of slow growth.

To be specific, core products of Jumpcan Pharma took the lead in the Subdivision industry and maintained a high growth. The turnover of Pudilan Anti-inflammatory Oral Liquid, digestive drugs (Rabeprazole Sodium Enteric-coated Capsules and Jianweixiaoshi Oral Liquid) and Child Chiqiao Qingre Granules saw an increase of 28.4%, 15.3% and 26% to approximately RMB 1.66 billion, RMB 980 million and nearly RMB 500 million, respectively. Additionally, Dongke Pharma which was acquired by Jumpcan Pharma in late 2014 contributed turnover of approximately RMB 73 million (starting from May 2015).

Sales breakdown in 2015

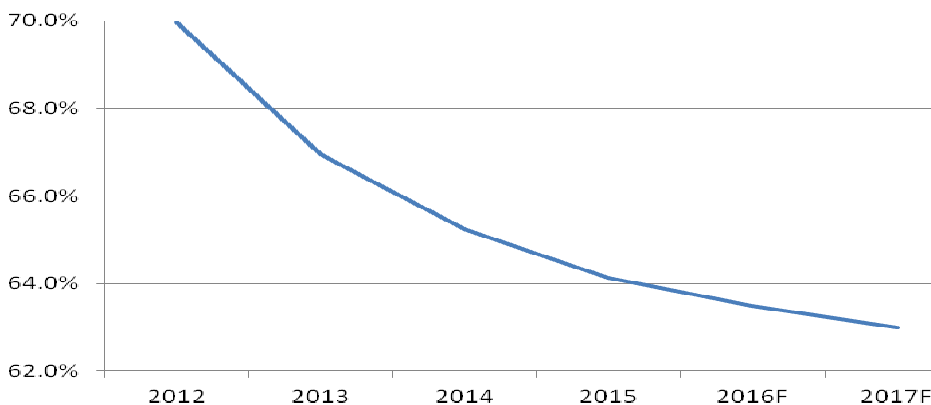
■ Clearing heat-toxicity drugs ■ Digestive drugs ■ Pediatric drugs ■ Others



Source: Company reports, Phillip Securities (HK) Research

In terms of profitability, Jumpcan Pharma maintained a high gross profit margin of 84.35%. Furthermore, three expense ratios maintained their declining trend, indicating improvement of operating efficiency. In 2015, the marketing expense ratio stood at 54.27%, down by 0.85%; the administrative expense ratio was 8.44%, down by 0.27%; the financial expense ratio was -0.12%, down by 0.02%. The overall expense ratios are expected to decline with further scale expansion.

Gradually declined operating expense ratio



Source: Company reports, Phillip Securities (HK) Research

Buy (Initially)

CMP: CNY 23.13
(Closing price as at 24 Mar 2016)
TARGET: CNY 30.25 (+30.8%)

COMPANY DATA

O/S SHARES (MN) :	781
MARKET CAP (CNYMN) :	18,065
52 - WK HI/LO (CNY):	34.90/ 18.77

SHARE HOLDING PATTERN , %

Cao Longxiang :	72.12
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PRICE PERFORMANCE , %

	1M	3M	1Y
Jumpcan Pharma	7.67	-17.87	-1.40
SCI	4.00	-0.65	16.97

PRICE VS. SCI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	2935	3704	4628	5607
Net Profit	519	687	876	1079
EPS, CNY	0.67	0.88	1.12	1.38
PER, x	34.52	26.28	20.64	16.75
BVPS, CNY	2.94	3.41	3.89	4.47
P/BV, x	7.88	6.77	5.94	5.17
ROE, %	30.1	27.7	30.4	33.0
Debt/Equity (%)	46.37	32.17	25.00	25.00

Source: Company reports, Phillip Securities Est.

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Strong Potential in Main Products

Though the whole pharmaceutical industry enters a period of slow growth against the background of health care cost control and price drop in bidding, the main and new products of Jumpan Pharma are competitive and thus are expected to maintain rapid growth.

Firstly, the Pudilan Anti-inflammatory Oral Liquid is an exclusive dosage form for relieving heat and detoxification. It may occupy competitors' market shares as it benefits from the policies of "long-term limit to antibiotics" and "limit to Chinese medicine injections". Furthermore, its average daily cost is approximately RMB 14, lower than those of other competitive drugs. It is predicted that there will be no big price cut. In terms of marketing channel, the sales of Pudilan OTC have contributed over 10% of sales, and Jumpan Pharma has started cooperation with large chain drug stores and expanded its OTC marketing teams. The turnover from the chain drug stores is expected to witness big growth.

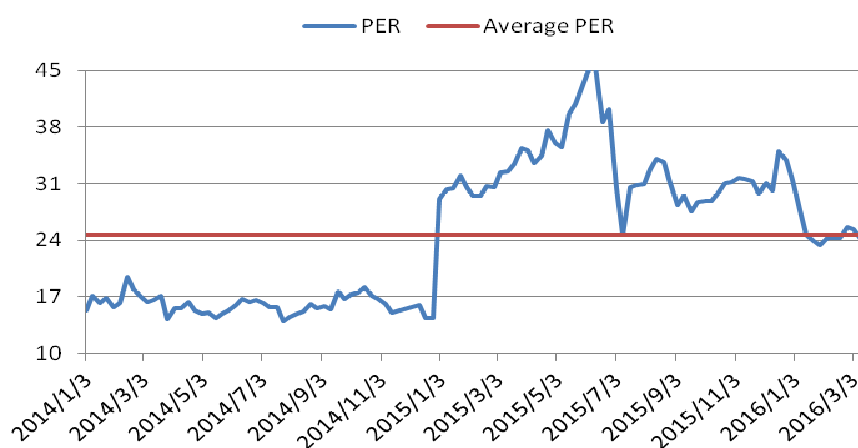
Secondly, the Child Chiqiao Qingre Granules is an exclusive product, and it is a leader in its own market segment. In 2014, it occupied 33.95% of market share of Chinese patent drugs for children's cold. Furthermore, its average daily cost is RMB 16, lower than its competitive products, and it is expected to witness rapid, stable growth due to favorable bidding environment created by preferential policies for pediatric drugs. There is basically no more price cut for it.

Thirdly, in 2015 Jumpan Pharma gained production licenses for the Iron Proteinsuccinylate Oral Solution, which is the first generic drug and used for treatment of IDA. Currently, the average occurrence rate of IDA in China is between 15% and 20%. But previous ferrous iron solutions taste bad, which is especially unsuitable for children. The Iron Proteinsuccinylate Oral Solution features better efficacy and tastes better. It is expected to take over market share of previous ferrous iron solutions and become a product with turnover of more than RMB 100 million.

Underestimated White Horse

Jumpan Pharma is expected to maintain rapid growth as there is little pressure for price cut of its main products and it has strong sales teams and echelon-shaped product lines. Additionally, Dongke Pharma will contribute more to the growth after it joins the marketing system, and its sales pattern will turn from investment invitation mode to self-operation mode to improve gross profit margin. Jumpan Pharma is expected to maintain a growth rate of 25 to 30%. We give it an estimation of 27x EPS in 2016 and the target price is RMB 30.25, with the "Buy" rating initially. (Closing price as at 24 Mar 2016)

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Risks

- Price cut of medicine in invitation for bids;
- High dependence on main products;
- Progress of secondary public offering falls short of expectation.

Financials

FYE	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings	35.05	34.52	26.28	20.64	16.75
Price to Book	15.03	7.88	6.77	5.94	5.17
Dividend Yield	0.0%	1.7%	3.0%	3.5%	3.9%
Per share data(RMB)					
EPS Adjusted	0.66	0.67	0.88	1.12	1.38
Book Value Per Share	1.54	2.94	3.41	3.89	4.47
Dividends Per Share	0.00	0.40	0.70	0.80	0.90
Growth & Margin					
Revenue growth	-	22.0%	26.2%	25.0%	21.1%
Gross Profit growth	-	21.1%	26.3%	24.9%	21.1%
Net Profit growth	-	29.0%	32.2%	27.6%	23.2%
Profitability Ratios					
Gross Margin	84.6%	84.0%	84.1%	84.0%	84.0%
Net Profit Margin	16.7%	17.7%	18.5%	18.9%	19.2%
Dividend Payout Ratio %	0.0%	60.2%	79.7%	71.4%	65.2%
Key Ratios					
Return on Assets	22.5%	19.3%	19.8%	23.7%	26.4%
Return on Equity	42.3%	30.1%	27.7%	30.4%	33.0%
Effective Tax Rate	13.4%	14.1%	14.6%	14.5%	14.5%
Liability ratio	42.8%	31.7%	24.3%	20.0%	20.0%
Income Statement(RMB: mn)					
Revenue	2,406	2,935	3,704	4,628	5,607
- Cost of Goods Sold	370	469	590	740	898
Gross Income	2,036	2,466	3,114	3,889	4,709
- Selling, General & Admin Expenses	1,611	1,915	2,375	2,939	3,533
Operating Income	425	551	739	950	1,176
- Net Non-Operating Losses (Gains)	-53	-58	-63	-70	-80
Pretax Income	465	605	800	1,020	1,256
- Income Tax Expense	62	85	116	148	182
Income Before XO Items	403	519	683	872	1,074
- Minority Interests	0	0	-3	-4	-5
Net Profit	403	519	687	876	1,079

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 24 Mar 2016)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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